



City of Westminster Cabinet

Decision Maker: Cabinet

Date: 17 February 2022

Classification: General Release

Title: Capital Strategy 2022/23 to 2026/27, Forecast Position for 2021/22 and Future Years Forecast to 2035/36

Wards Affected: All

Financial Summary: The Council has a proposed gross capital programme up to 2035/36 of £2.751bn, offset by £1.260bn of funding, giving a net budget of £1.491bn – which is to be funded via borrowing. The cost of borrowing has been built into the revenue implications of the capital strategy which is detailed in section 13

Report of: Gerald Almeroth, Executive Director – Finance & Resources

1. Executive Summary

- 1.1. The report sets out the Council's capital strategy from 2022/23 to 2026/27 and summarises the position up to 2035/36.
- 1.2. The general fund capital programme as detailed in Appendix A, proposes a gross budget of £2.751bn and a net budget of £1.491bn (including capital receipts). The capital programme of the Housing Revenue Account is set out separately in the HRA Business Plan which accompanies this report as part of the Council's annual budget setting process.

- 1.3. The Council's long-term capital investment is underpinned by the objectives of the City for All strategy. Capital proposals are considered within the Council's overall medium to long-term priorities, and the preparation of the capital programme is an integral part of the financial planning process. This includes taking full account of the revenue implications of the projects as part of the revenue budget setting process. The Council continues to set aside additional revenue funding each year to cover the financing costs of the programme in accordance with previously stated plans.
- 1.4. In addition to the capital budgets and revenue implications, the report sets out the following:
 - City for All strategy ([Section 4](#))
 - The Council's asset base ([Section 5](#))
 - Delivery strategies ([Section 6](#))
 - Budget setting and prioritisation ([Section 7](#))
 - Governance ([Section 8](#))
 - Key projects and programmes ([Section 10](#))
 - Capital funding ([Section 11](#))
 - Risk management ([Section 14](#))

2. Recommendations

That Cabinet approve the following recommendations to Full Council for consideration at its meeting on 2 March 2022:

- 2.1. To approve the capital strategy as set out in this report.
- 2.2. To approve the capital expenditure for the General Fund as set out in Appendix A for 2022/23 to 2026/27 and future years to 2035/36.
- 2.3. To approve that all development and investment projects, along with all significant projects follow the previously approved business case governance process as set out in section 8 of this report.
- 2.4. To approve that no financing sources, unless stipulated in regulations or necessary agreements, are ring fenced.
- 2.5. To approve the proposed financing of the capital programme and revenue implications as set out in section 13 of this report.

- 2.6. To approve the allocation of Strategic Community Infrastructure Levy (CIL) to the three projects outlined in paragraph 11.7 of this report.
- 2.7. To delegate to the Executive Director of Finance and Resources the decisions surrounding financing of the capital programme in order to provide sufficient flexibility to allow for the most effective use of the Council's resources.
- 2.8. To approve the Council's discretion to use capital receipts to fund the revenue costs of eligible proposals (subject to full business cases for each project). This comes under the DLUHC Guidance on the Flexible Use of Capital Receipts (FCR).

3. Reasons for Decision

- 3.1. The Council is required to set a revenue and capital budget. The revenue budget is set as part of the Medium Term Financial Plan (MTFP), where the capital budget is set as part of this strategy document.
- 3.2. Capital expenditure is defined as expenditure that is predominantly incurred on buying, constructing, or improving physical assets such as land, buildings, infrastructure and equipment.
- 3.3. The Council is required to set a balanced revenue budget, and the capital programme forms part of this process.

4. City for All Strategy

- 4.1. Westminster City Council's policy objectives are set out in City for All and this creates the overarching strategic direction that this Capital Strategy follows. The Council has embarked on an ambitious capital programme with a plan to invest up to £2.751bn (general fund) over the next 15 years. The investment in capital and assets on this scale is a foundation in enabling the Council to achieve its City for All ambitions.
- 4.2. The four City for All pillars are:
 - **Greener and Cleaner:** tackling the climate emergency to deliver a thriving zero carbon city, resilient to climate impacts and safeguarded for future generations
 - **Vibrant Communities:** making the most of the incredible opportunities in our City and building much needed housing for our residents
 - **Thriving Economy:** in response to Covid-19 impacts, this pillar will focus on supporting the recovery of the economic wellbeing of our

residents and businesses and a renewal of Westminster's economy in support of the national economy

- **Smart City:** using cutting edge technology and digital innovation to transform Council services and improve people's lives

4.3. Further detail on some of the key projects that sit within each pillar is outlined below:

Greener and Cleaner

- In recognition of the growing need for greater action to avert the global climate crisis, the council has declared a Climate Emergency, and pledged to be a net zero organisation by 2030 and a net zero city by 2040. The Council has set ambitious targets to achieve carbon neutrality for itself, across Westminster and our communities. Delivering these will help harness important co-benefits such as improved air quality. Schemes include:
 - Rolling out more electric vehicle charging points across the City
 - Procuring fully electric waste collection vehicles and infrastructure
 - Ensuring that any building asset replacement is undertaken to modern building regulation standards, thus improvement their sustainable credentials
 - Improving the energy efficiency of our housing stock and decarbonising the Pimlico District Heating Unit
 - High specification housing regeneration schemes will be designed to reduce the Council's carbon impact
 - Improving use of technology such as air quality sensors to reduce emissions
- Currently, the Council is on a journey to improve carbon impact information of the capital strategy to ensure decisions taken on capital investment have a positive impact on the Council's carbon footprint in the future. This is a highly ambitious plan and the Council is developing a comprehensive carbon assessment toolkit to improve the quality of data available. This will be used to analyse the carbon impact of its capital strategy and officers are working with the consultant, GEP, to test this early in 2022/23.

Vibrant Communities

- Vibrant Communities addresses inequalities across the City, and ensures everyone is able to live healthy lives, through making the most of the incredible opportunities across our City and building much needed housing for our residents.
- The City Plan will enable the building of around 20,000 new homes by 2040, of which at least 35% will be affordable. Several large development schemes within the capital programme are planned to help to deliver at least 1,850 new affordable homes by the Council. Delivering high quality affordable homes will ensure Westminster is one of the best places for residents and families to live, work and play.
- Schemes being delivered by Westminster Builds include Ebury Phase 2 and 300 Harrow Road, major sites for regeneration in the north of the borough.
- Continued investment in other public realm projects within Westminster creates and preserves spaces where people enjoy living, working and visiting. The investment reflects the pride we take in our role as custodian of the City, protecting our heritage by managing places and spaces that can be enjoyed both now and in the future. Investment in improving the public realm and pedestrian environment helps to accommodate the safe and efficient movement of growing numbers of people entering and moving around Westminster, managing vehicular traffic and making walking safer and more enjoyable. We will ensure that residents, businesses and stakeholders are at the heart of place shaping to deliver on robust and vibrant places.
- The Council's investment in core infrastructure of carriageways, footways, lighting and bridges, recognises the commitment the council must manage the performance, risk and expenditure on its infrastructure assets in an optimal and sustainable manner throughout their lifecycle, covering planning, design, development, operation, maintenance and disposal. This programme ensures our infrastructure is in a safe and reliable condition, is efficiently managed and means our residents and visitors can enjoy clean, high-quality streets.

Thriving Economy

- Westminster's economy, from its high streets to the West End, is critical to the nation's economic wellbeing, making up nearly one-sixth of London's jobs. The Covid-19 pandemic has had a considerable impact on the

Westminster's economy; with many commuters opting to work from home for at least part of the working week, and the tourist trade being severely restricted, London has seen a weaker recovery than other parts of the country and consequently it remains a challenging environment for businesses, particularly in the hospitality, leisure, and retail sectors.

- As the nation slowly recovers and economy begins to improve, the Council will continue to work with partners across the City to support its vital businesses and help them thrive. Through the Thriving Economy pillar, the council will ensure Westminster retains its destination status, deliver a green economic recovery and support jobs and businesses.
- The Council's aspiration to uphold Westminster as the leading centre of tourism in Europe is demonstrated by the investment into the Oxford Street District programme. This broad programme will support the district's adaptation during and post Covid and sustain its status as a global destination for retail, leisure and tourism. We will work with partners and residents to ensure the plans embrace innovation, sustainability and diversity, with world class retail, dynamic cultural experiences and safe, smart streets for all.
- In addition to the development projects happening across Westminster, the Council also has committed to invest an additional £10m in its district high streets to ensure that local communities and business are protected and supported.

Smart City

- The Council will invest significantly in its Smart City and Digital programme to enable the Council to create an inclusive Smart City for All, using innovation, technology, and partnerships to improve efficiency, deliver quality services and provide world-leading experiences for our residents, businesses and visitors. The investment is focused on areas that will benefit residents the most and attract people back to the city to support the local economy.
- Key projects within the four key themes include:
 - Empowering people
 - Clean Tech City
 - Extraordinary Experiences
 - Innovative Ecosystem

- To help bring these themes together there will also be investment in the underlying infrastructure to develop a Smart City operating system. This will increase intelligence, transparency and effectiveness of digital and smart city initiatives, as well as provide broader benefits around data across the Council.
- In addition, there are broader initiatives in:
 - **Customer experience** - the Council wants its online experience to be good enough that customers will always use digital by choice. To achieve this, we will develop the existing capability and capacity to improve the website, the online experience and truly put the customer at the heart of what we do and enable them to be digital by choice. Specific requirements include website improvements, microsites migration, My Westminster and Digital Card smartphone app, single sign on, user experience design and accessibility compliance to improve the experience of customers when using our online products.
 - **Broadband and WiFi for residents** - investment and continued work with third parties including BIDs will lead to productivity improvements through delivering digital connectivity within Westminster. The investment will be targeted at locations in the City where the commercial providers are not looking to put in sufficient broadband provision – informed by the Council's recent open market review. In addition, support to traders are being provided to increase income through enabling street market WiFi and delivering training so they can optimise their use of digital technology to increase business.
 - **IT infrastructure** - focused investment to ensure staff within the Council have up to date corporate devices and the right device for their role, implementation of priority security actions following external assessment and enhanced cyber security, upgrades to key systems to support efficient working, new integrations between systems to improve the customer experience, improved data analytics capability to inform customer improvements and better decision making, improvements to the website and online forms to deliver a better customer journey, consolidating our telephony systems and upgrading the audio visual equipment in our meeting rooms to support on-site and hybrid meetings.

- All of this can only be delivered if it is underpinned by integrated data systems and digital infrastructure.

5. **The Council's Assets**

- 5.1. The Council has total long-term assets of £3.299bn across Property, Plant and Equipment, Investment Properties, Heritage and Other Assets. A summary of each asset class is outlined in the table below:

Asset Type	March 2021 £m
Council Dwellings	1,562
Other Land and Buildings	690
Investment Properties	467
Infrastructure Assets	296
Assets under Construction	198
Heritage Assets	45
Community Assets	28
Vehicles, Plant and Equipment	8
Intangible Assets	3
Assets Held for Sale	2
Total	3,299

- 5.2. Based on the Council's current level of assets, the capital strategy as outlined in this report will significantly increase the Council's asset base over the next 15 years across the General Fund and HRA.
- 5.3. The majority of capital expenditure as set out as part of this strategy will be spent on land and buildings and council dwellings (through the HRA).
- 5.4. The Council carries out regular maintenance on its properties and infrastructure assets. The capital programme ensures that its highways, operational properties, and council dwellings are continuously maintained to a good standard. These schemes are outlined further in this report.

6. Overview of Delivery Strategies

- 6.1. The Council's capital programme is categorised into three key areas: Development, Major Strategic Investments, and Operational.

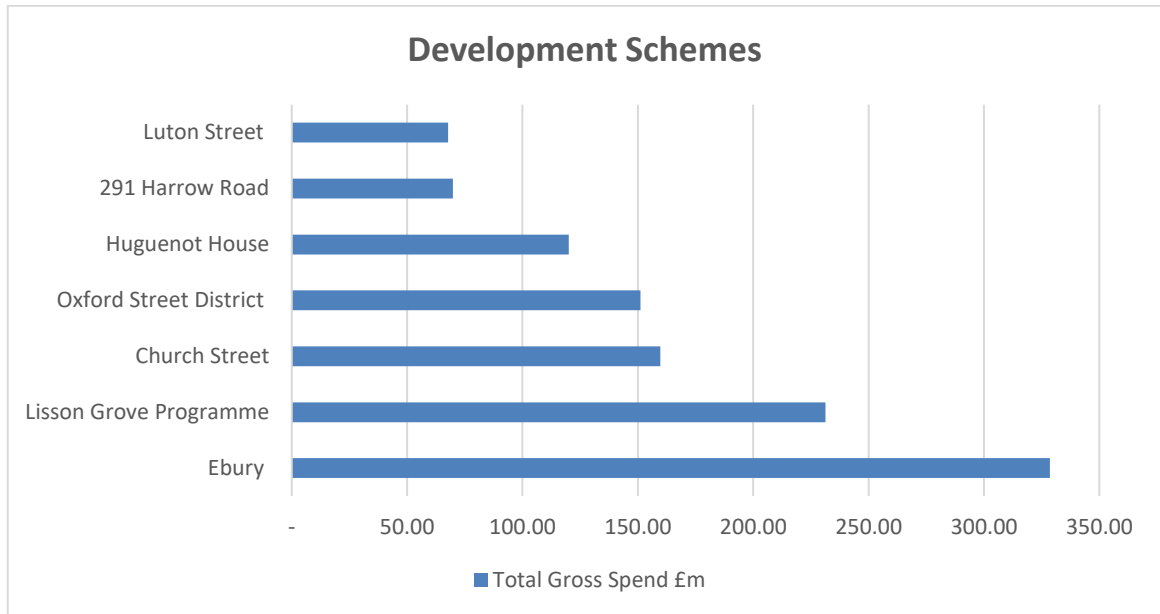
Development £1,602m	Major Strategic Investments £120m	Operational £1,029m
<ul style="list-style-type: none">• Achieve strategic aims• Investment for commercial purposes	<ul style="list-style-type: none">• Future regeneration of key strategic sites• Increased income / capital values and diversity of portfolio	<ul style="list-style-type: none">• Corporate property rationalisation• Reduce carbon footprint• Reduce running cost and ensure property is fit for purpose• Meet statutory requirements

- 6.2. A list of the proposed schemes (with associated expenditure and external funding) can be found in Appendix A, as part of the General Fund capital programme.

Development

- 6.3. Development projects are long term delivery projects and key schemes that directly support the Council's strategic aims, in line with City for All. These include the long-term sustainability of Council services through income generation and meeting service objectives in areas such as affordable housing and regeneration. This will help Westminster's residents and businesses in creating a strong local economy to live and work in, helping to embed the long-term aspirations of City for All. Most eminently, development projects will aid the Council in achieving its objectives for tackling the climate emergency, addressing inequalities, ensuring inclusion, and continuously innovating.
- 6.4. Many of the major development schemes will deliver affordable housing or social housing for the Council. These schemes will also include private housing for sale on the open market, thereby generating capital receipts for the Council to improve the viability of the schemes. The risks associated with reliance on this delivery and funding route are noted in Section 14.

- 6.5. The Council will review the best delivery routes for development projects. Delivery routes largely fall into the following categories:
- Self-develop: where the project is undertaken by the Council, resulting in the greatest potential return but with higher cost and risk exposure.
 - The developer: this usually involves selling the opportunity to a developer resulting in the least return but also the least cost and risk.
 - Joint-venture: this is an approach between the above two routes and can be a good option to limit risk and broaden expertise and capacity on the project, whilst still sharing in the returns.
 - Delivery through the Council's housing subsidiary companies Westminster Builds (WB) – Westminster Housing Investments Limited (WHIL) or Westminster Housing Developments Limited (WHDL).
- 6.6. Under a developer or joint-venture delivery route it is likely the Council will have to undertake site assembly and the initial stages of planning before a partner is prepared to enter into an agreement on the opportunity.
- 6.7. One of the key financial risks of development projects from the perspective of the capital strategy is the need to have accurate financial estimates and profiling of expenditure in line with project milestones. To ensure this is as rigorous as possible the Council implements a challenge process for these projects, with further details on the process and governance behind this included as part of sections 7 and 8 of this report. Risks are discussed in more detail in section 14.
- 6.8. Development schemes make up a significant proportion of the gross capital budget at £1,601.766m, and of the capital receipts in the programme at £1,016.597m. Key examples of projects that fall under this category are noted in the graph overleaf:



Major Strategic Investments

- 6.9. The Council’s capital programme includes a strategic acquisitions budget to allow it to acquire properties to enable the development of key strategic sites for future regeneration and investment opportunities.
- 6.10. The Council’s Property Investment Strategy is based around a vision of having balanced and diversified portfolio with the aim of long-term revenue and capital appreciation for the greater benefit of the Council and its residents. As at March 2021, the Council maintained 278 number of investment properties, with a value of £467m, generating nearly £37m per annum for the Council to spend of essential services and invest back into its capital programme.
- 6.11. There are four key objectives that support this vision:
- Alignment to the Council’s wider City for All objectives; developing key strategic sites that can benefit residents through future regeneration
 - Income optimisation from the existing portfolio
 - Streamlining and futureproofing the existing portfolio making it fit for the future
 - Investing in new properties within Westminster for strategic and commercial purposes
- 6.12. Property Investment Acquisition has a budget of £120m within the capital programme to support future investment. The portfolio is stock and not sector led. Any new investment should aim to diversify the portfolio in addition to

supporting the Council's broader strategic aims. Key principles for new investments are:

- Focus on strategic clusters linked to the Council's long-term regeneration and economic objectives including in the Harrow Road, Edgware Road and Church Street neighbourhoods. Lot sizes or yields can be less than 4% due to the broader strategic benefits, longer term value expectations and the size of the investment portfolio already held in these locations
- Any other new investment should consider yields of 4-5% in the short to medium term to enhance income
- All assets acquired must be within Borough unless opportunities arise adjacent to existing out-of-borough holdings or strategically close to the borough boundary
- A minimum lot size of around £10m is preferable unless the other principles are met through the acquisition.
- Any investments in commercial property conform with minimum revenue provision (MRP) regulations.

6.13. These are a guiding set of principles that will be reviewed in conjunction with CIPFA's publication 'Prudential Property Investment' which sets out guidance for Local Authorities investing in property. In addition, rigorous governance procedures are followed which mitigate risks associated with property acquisitions including seeking recommendation and guidance from the Property Investment Panel. This Panel includes independent external industry expert representation.

6.14. In March 2016, the DLUHC issued statutory guidance allowing the flexible use of capital receipts to support local authorities in delivering more efficient and sustainable services. Updated guidance issued by DLUHC extended the original three-year period from 1 April 2016 and in February 2021 confirmed a further three-year extension from 2022/23 onwards. This applies only to capital receipts generated during this period.

6.15. It allows local authorities to use capital receipts received in the year to fund the revenue costs of service reform and transformation, provided that this expenditure yields ongoing savings to an authority's net service expenditure. Capital receipts applied to revenue expenditure in any given year must have been generated in that same year.

Operational

- 6.16. Operational schemes make up a significant proportion of the gross capital budget at £1,027.474m. The Council's operational capital strategy is centered on capital improvement works to the Council's operational asset portfolio. This falls into two main categories:
- Land and Buildings – 379 General Fund assets with a value of £592m
 - Infrastructure – asset value of £295m
- 6.17. The Council has completed condition surveys across the operational estate and this information is used to inform capital maintenance planning and lifecycle replacement, energy usage and day-to-day building management. It will ensure that ultimately the Council's operational estate is fit for purpose. The data will reduce building operational risk and ensure all compliance including and health and safety obligations are met.
- 6.18. The Council has completed the implementation of the Corporate Landlord approach to operational property management. This will ensure the effective and efficient management of property by centralising property service activities, decision making and budgets. It ensures that decisions about property are taken from a corporate and strategic perspective and that opportunities to deliver efficiencies are captured and assessed via the internal officer Strategic Property Board.
- 6.19. As part of the forward planning of the operational estate, there are some key areas which will be further developed in 2022/23 in line with Council objectives. These include aligning accessibility audits with building condition surveys to enhance accessibility for Westminster's Community throughout the Council's public buildings. The Council has recently introduced the WelcomeMe app that helps people access its buildings, the first local authority to do so.

7. Capital Budget Setting & Prioritisation

- 7.1. Every year the Council reviews its capital programme and the projects within it. This is undertaken alongside the revenue budget process in order to ensure that the impact of both is considered.
- 7.2. As part of the yearly capital budget setting process services review projects and submit bids using the following criteria:
- Strategic Fit: how the project aligns with the Council's City for All objectives and priorities and what it is trying to achieve.

- Financial: what are the financial circumstances for the project, e.g. is funding readily available, is it affordable and value for money?
 - External factors: is the project needed because of another scheme or development, or any other external factors such as health and safety requirements?
 - Risk: is the success of the project dependent on mitigating high associated risks?
- 7.3. There is an internal prioritisation review process with officers and then recommendations are considered by the Council's Capital Review Group (CRG).
- 7.4. The prioritisation process supports the Council in making decisions about which projects to progress, especially in an environment of challenging financial and officer resource. The process will continue to be developed and refined to ensure that projects and programmes are affordable and meet the Councils strategic objectives.

8. Governance

- 8.1. The capital programme comprises a wide-ranging set of projects with equally wide-ranging budgets. The current programme can be broken down by value as follows:
- 31 schemes above £10m in individual value
 - 74 projects between £1.5m and £10m projects
 - 117 projects below £1.5m in individual value
- 8.2. The main forum for reviewing all aspects of the capital programme is the Capital Review Group (CRG). This group reviews the strategic direction of the programme, ensures outcomes are aligned with City for All, development or other significant projects have a viable business case and that value for money (VfM) is delivered for the Council. It also monitors the expenditure and funding requirements of the capital programme and subsequent revenue impacts.
- 8.3. CRG's governance has been further strengthened by giving it oversight of projects with a budget above £1.5m that are revenue funded but have the characteristics of capital schemes, allowing it to review and challenge schemes before implementation.

- 8.4. The Council's governance arrangement deems significant projects to be those with minimum capital expenditure of £10m. These are projects that require a level of resident engagement, with issues that may give rise to sensitivities, involving matters which are a major strategic aim of the Council, carrying major risk, with an important historical context.
- 8.5. All development (as per the General Fund Capital Programme) and regeneration (as per the HRA business plan) projects over £10m will have to produce the following three business cases:
- Strategic Outline Case (SOC)
 - Outline Business Case (OBC)
 - Full Business Case (FBC)
- 8.6. At each of the following stages of the five-case model, business cases must include the following five areas: The Strategic Case, The Economic Case, The Commercial Case, The Financial Case and The Management Case.
- 8.7. Projects under £10m will require a Business Justification Case only. However, this will be dependent on the other criteria and factors. The list below is not exhaustive and whether a project can go through a one stage process has to be reviewed on a case-by-case basis and agreed by senior officers, members and the Project Management Office (PMO). The factors include:
- Level of resident engagement required
 - Sensitivities
 - Strategic aims of the project
 - Historical context of the project
- 8.8. All business cases will require CRG approval followed by formal approval via a CMR or Cabinet Report. Although development projects may have a budget allocation in the capital programme the approval to draw down the budget will only be obtained via CRG approval and will align to the business case stage the project is at.
- 8.9. Assessment of the business cases will ensure that all aspects of a potential development scheme are analysed and the impact on all stakeholders identified. Therefore, the Council will be able to gain a full understanding on how a specific scheme will influence the overall strategy, the local economy, officers and resources of the Council.

9. Summary of the Capital Programme – 2021/22 to 2035/36

9.1. Overview of overall capital figures and breakdown by ELT

Table 1: Proposed General Fund (excluding HRA) capital programme 2021/22 to 2035/36

	Forecast	Five Year Plan					Future Years	Total £000
	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	to 2035/36 £000	
Expenditure								
Growth, Planning & Housing	90,083	132,253	110,261	137,569	163,971	73,700	171,012	878,849
Adults Services	568	513	219	-	-	-	-	1,300
Environment & City Management	75,557	96,659	76,465	54,158	28,524	24,575	-	355,938
Children's Services	17,651	3,370	3,040	40	-	-	-	24,101
Finance & Resources	45,135	38,800	44,990	182,345	44,699	73,351	542,436	971,756
Westminster Builds	42,200	30,300	72,100	56,800	95,400	13,600	208,405	518,805
Total Expenditure	271,194	301,895	307,075	430,912	332,594	185,226	921,853	2,750,749
Funding								
External Funding	(84,431)	(46,939)	(38,686)	(21,844)	(10,254)	(11,446)	(27,950)	(241,550)
Capital Receipts	(7,381)	(83,533)	(47,441)	(8,563)	(79,713)	(122,211)	(669,276)	(1,018,118)
Total Funding	(91,812)	(130,472)	(86,127)	(30,407)	(89,967)	(133,657)	(697,226)	(1,259,668)
Borrowing Requirement	179,382	171,423	220,948	400,505	242,627	51,569	224,627	1,491,081

9.2. The proposed capital programme for the Council over the next five years (including 2021/22 and summarised over the subsequent ten years) is a gross capital expenditure budget of £2.751bn. Over £1bn of this expenditure is due to be incurred over the next three years, 2022/23 to 2024/25. This is in line with the Council's development projects (which sit mostly within the Growth, Planning and Housing directorate).

10. Key Projects & Programmes

Education

10.1. The education capital programme falls into two broad categories:

- Schools' expansion
- Building works related to condition surveys, physical impairment, accessibility (e.g. special education needs) and general improvements

10.2. Expenditure on schools' expansions are in response to pupil place planning needs across the borough. The majority of the expenditure in the Children's programme is due to take place in 2021/22, due to the St Marylebone Bridge Special School and King Solomon school expansion completing in-year.

10.3. Expenditure on other school-related projects is designed to improve the fabric of buildings and/or make them more inclusive for children with special educational needs (SEN) or a physical impairment. The service is making best use of its SEN Capital Grant, School Condition Allocation Grant and funding from Section 106 and Community Infrastructure Levy to ensure schools remain in good condition.

- 10.4. The proposed capital programme includes approximately £6.450m of expenditure on school/education capital projects over the next five years. External funding of £5.300m is assumed, with the Council funding £1.150m. More information on these funding sources can be found in section 11.
- 10.5. Providing for the above allows the Council to manage expenditure on the High Needs Block of the Dedicated Schools Grant more effectively and ensures it makes best use of the Passenger Transport contracts for children with SEN by providing more capacity in the borough, reducing distances travelled and/or allowing children to become independent travel trained giving them a life skill, improving employment prospects in adulthood, and reducing the Council's expenditure on the General Fund.

Planned Preventive Maintenance/ Structural Works

- 10.6. The majority of this category relates to £89.445m of Planned Preventive Maintenance of the Highways, Lighting and Bridges and Structures within the Borough. The work is aimed at maintaining the durability of the asset and deliver a well-managed, high-quality streetscape whilst protecting and enhancing Westminster's unique heritage.

Property Capital Programme

- 10.7. The Council has the benefit of valuable land and buildings which are used to deliver services to Westminster residents such as libraries. Many of our properties are also occupied by voluntary and community organisations who can apply for support in paying their rent to occupy these spaces where they deliver demonstrable benefits to residents. The council also owns properties which are let out to commercial tenants and the rent received is used to support front line services.
- 10.8. Work is underway to work with key services to identify how ways of delivering services differently can result in property savings whilst enhancing community access. The Vibrant Spaces approach seeks to co-locate services to achieve these strategic goals. The organisation's approach to flexible working has transformed during Covid. The workplace strategy, which is still evolving, has included the launch of the Innovation Hub at City Hall and introducing Touchdown Spaces across Westminster to enable staff to work closer to our communities. These changes will continue throughout 2022/23 to meet the needs of officers delivering for local people.
- 10.9. Managing the property impacts of Coronavirus to enable Covid safer working for staff and access for the public has been the utmost priority. However, the Council has continued to drive through other high priority work to ensure the

continuous improvement to the management of our land and buildings. This work has included:

- Embedding a “corporate landlord” approach in managing the operational estate.
- Focusing on performance management, in particular, the Facilities Management contract.
- Development of the council’s property information system to enable high quality information to be extracted to support decision making.

10.10.Key projects within the Property Capital Programme are as follows:

- Delivery of the £13m operational building decarbonisation programme - This work will conclude in March 2022 and will deliver a substantial reduction in operational portfolio carbon emissions. This work is funded from a BEIS decarbonisation of public buildings grant.
- Commencement of the decarbonisation programme of investment stock - This programme is in its infancy but will direct the planning of investment towards the 2040 net carbon zero target of the council around tier 2 emissions.
- Huguenot House - Agreement was reached as to the Preferred Way Forward in March 2021. Soft market testing has begun for delivery route options which is due to complete in March 2022. Further acquisitions at site will be considered before the financial year end.
- Seymour Centre Project - Consideration of options for the future best use of the Seymour Centre putting wide resident needs and aspirations at the heart of a new offer. The appointed architects have started pre app meetings with the planners and extensive community consultation continues.
- Coroners Court Extension - The project to enhance and extend the existing coroners court has commenced and will conclude in January 2023. This is an exciting step in the delivery of this multi-partner project.
- Queen Mother Sports Centre - The outcome of the Seymour Centre project and progress with the Chelsea Barracks leisure facility will inform plans for the QMSC. In the meantime, strategic property acquisitions progress to potentially enhance the options available for this site. The redevelopment of the site is a key part of the wider capital programme.

Greener and Cleaner

10.11. The council has declared the Climate Emergency a key priority and set ambitious targets to achieve carbon neutrality for the council, across Westminster and our communities. Significant schemes include:

- Waste Collecting and Street Cleansing Vehicles - Reduce waste through transforming recycling facilities and enhancing our environmentally friendly and low emission waste collection service. Street Cleansing operations will be delivered using zero emission (electric) specialist vehicles.
- Council Buildings - Reviewing the environmental credentials of our portfolio, including the retro fit scheme and high specification housing regeneration schemes which are designed to reduce the Council's carbon impact

Public Realm Schemes

10.12. This covers a wide variety of schemes that aim to improve the public realm within the Borough. Significant schemes include:

- Oxford Street District - Temporary improvement works on Oxford Street and the Soho Photography Quarter are approaching completion and works on Manchester Square and Berners and Newman Street will commence before the end of 2021/22. The delivery plan was revised during 2021/22 to ensure each work package meets the following four key tests in order to support the case for investment.
 - A clear case for change - ensures schemes align with the objectives within the business case.
 - Meaningful engagement and partnerships - will encourage engagement with stakeholders, residents and the wider community to forge strong relationships.
 - Clarity on impact for residents - residents needs will be at the forefront of decision making and measures put in place to mitigate any negative outcomes.
 - Robust costing and investment perspective - will ensure proposals are cost effective and consider long term maintenance as well as capital construction costs.
- Strand Aldwych - In light of the coronavirus pandemic, a phased approach to delivery has been introduced. A 'meanwhile' space will be introduced on

the Strand, giving the opportunity to support the local economy and the West End's creative and cultural industries as quickly as possible. The Aldwych works to complete the two-way switch were completed successfully in August 2021. This enabled the first phase of the meanwhile space to open in September 2021. This approach provides additional flexibility to take account of a changing economic and cultural landscape and respond to needs as they arise through use and management of the meanwhile space. Work has progressed well with key partners in outlining a collaborative management model for the future maintenance of the space, with all parties willing to contribute.

- Westminster Ceremonial Streetscapes/Protective Measure - Integrates public realm improvements which improve resilience against vehicle-borne terrorist attack within the area described as the Westminster Ceremonial Footprint. This involves replacing existing temporary vehicle security measures drawn from the National Barrier Asset with permanent hostile vehicle mitigation measures, specifically designed to be more sensitive and sympathetic to the historic street scene. These schemes are fully external funded by a wide range of external partners and stakeholders. These funding partners include Home Office, MOPAC, TFL and House of Commons who have provided funding for number of schemes as part of the 'Ceremonial Streetscape' project.
- Queensway's Streetscape - Improving the public realm on Queensway and its surrounding / connector streets including public space between Bayswater Road and Westbourne Grove/ Bishop's Bridge Road.
- Berkeley Square South - Project Realm works to extend footways, reduce carriageway widths, improve crossing points around the southern section of the square following the success of the northern part of Berkeley Square North scheme. The scheme also includes upgrading pedestrian facilities and upgrade of the public realm on Bruton Place, Bruton Lane and Bruton Street.
- Grosvenor Square Public Realm Scheme - Project Realm works to extend footways, reduce carriageway widths, improve crossing points around Grosvenor Square. The scheme also includes upgrading pedestrian facilities and upgrade of the public realm.

General Fund Housing

10.13. The Housing capital programme in the General Fund contains schemes to provide additional affordable housing both in and out of borough. This is via temporary accommodation purchases and contributions to registered providers. The Affordable Housing Fund (AHF) comprises Section 106 agreements, which are ring-fenced monies paid to the Council in lieu of the direct provision of new social housing and is used for the delivery of in-borough housing projects by Registered Social Landlords.

Temporary Accommodation and Rough Sleeping

10.14. The Council has a statutory duty to provide Temporary Accommodation (TA) for households approaching the Council as homeless, who are eligible for housing, have a local connection, are vulnerable and who are not intentionally homeless. There are currently over 2,600 properties used as TA, managed by over 30 different provider organisations. Since 2013 the Council has also been purchasing properties directly for use as TA. This establishes an important pipeline of good quality housing that is available and affordable to households on low incomes during a time when sourcing accommodation has been particularly challenging.

10.15. Rough Sleeping impacts Westminster more than any other London Borough. The Council commissions a range of street outreach, support housing, and hostel provision for people sleeping rough. This acquisition programme will expand the availability of self-contained independent accommodation for rough sleepers assessed by officers as being able to live independently in their own homes. Support will be provided, particularly following the moves into the properties, to ensure the individuals settle and are able to access local services and move into employment.

Development/Regeneration Programme

10.16. The Council's development and regeneration programmes are delivered through either the general fund, the Housing Revenue Account (HRA) or the Council's wholly owned housing company, Westminster Builds. Together these funding routes assist the Council in achieving its City for All objective of building 1,850 affordable homes. Significant schemes include:

- Lisson Grove Programme - The programme incorporates the redevelopment of two key Council sites at Orchardson Street and Lilestone St, both of which form part of the wider Church St masterplan. The programme will provide a new Health and Wellbeing Hub alongside new homes. The existing office site will then be available for redevelopment and

delivery of a substantial level of additional housing. The Outline Business Case (part 1) for the planned development was agreed in March 2020. Work is now being undertaken to procure the key consultant team for the programme.

- Church Street Regeneration Site A –The capital strategy reflects general fund investment into a joint venture structure with an investment or delivery partner to facilitate the delivery of regeneration of Site A of the wider Church Street Regeneration programme.
- Luxborough - Delivery of 14 new intermediate homes, commercial space and improvement and landscaping works to areas surrounding Luxborough Tower.
- 291 Harrow Road Plans to acquire the NHS owned site will facilitate the delivery of 133 residential homes including 16 new, high quality specialist residential accommodation for the existing residents of 291 Harrow Road and Elmfield Way.

10.17. The general fund development programme is one branch through which the Council is realising its affordable housing ambitions. The other funding options are through the HRA and the Council's wholly owned housing company – Westminster Builds.

Westminster Builds

10.18. In June 2018, following Cabinet approval, the Council incorporated two new wholly owned companies, Westminster Housing Investments Limited (WHIL) and its subsidiary Westminster Housing Developments Limited (WHDL) known collectively as /operating under the brand 'Westminster Builds', for the purpose of helping the Council deliver its ambition to increase the supply of housing affordable to those living and working in Westminster.

10.19. In this two-company structure (set up for tax efficiency reasons), WHDL will undertake the construction and development of schemes and WB will hold properties for intermediate and market rent.

10.20. Westminster Builds is part of the Council's implementation of its City for All targets, providing homes at a wider range of price levels for people who live and work in Westminster. The Westminster Builds business plan sets out the Company's vision and objectives. The company's vision is as follows:

'By delivering high quality, modern homes for people from all backgrounds, the company aims to: Build better homes, Build a better city, Build a better future'

10.21. The specific business objectives are:

- to provide more intermediate and market housing in the City
- to offer new tenures and, in particular, intermediate tenures to extend the range of provision available for those living and working in Westminster
- to increase housing delivery at a scale, pace and quality set by the Council and with control and ownership of the assets retained by the Council
- to offer a flexible partner for the Council in delivering housing.

10.22. The current Westminster Builds Business Plan sets out the programme of planned activity by the company over a five-year period from 2021-2026 to include acquisitions, forward funding, collaborative and development opportunities.

10.23. The plan is estimated to deliver 1,145 new homes across all tenures, of which 732 will be developed by Westminster Builds either directly or in partnerships and Joint Ventures and 109 will be acquired from third parties. It is expected that in total 304 homes will be retained by Westminster Builds let at either market or intermediate rent.

Westminster Builds Development Programme

10.24. The development programme included in the business plan consists of the following schemes:

300 Harrow Road

10.25. Harrow Road is a self-delivered development providing 112 new homes, a nursery, workspace and a community hall. The approved scheme will deliver 49% affordable homes subsidised by open market sales. Delivered by WB through its subsidiary WHDL. The main works contract has now been signed and works on site will commence in quarter four of 2021/22. Completion is due in quarter three of 2023/24.

Westmead

10.26. The Westmead development will be directly delivered by Westminster Builds and will produce a total of 65 new homes on site including a mix of both

market sale and intermediate rent units, as well as new social rent homes to be retained within the HRA.

Luton Street

- 10.27. Following the approval by Full Cabinet and subsequent approval of the Full Business Case by CRG and the Westminster Builds board, the company entered into an LLP with BY Development for the delivery of Luton Street. Unlocking the development of the site, which includes 109 private and 62 affordable homes retained by the Council, the arrangement provides a fixed return to the general fund and Westminster Builds on financing the development as well as a share of the profits generated by the private sale in favour of Westminster Builds. The development is expected to complete in quarter two of 2022/23.

Ebury Bridge Phase 2

- 10.28. The Westminster Builds business plan includes a budget for the direct delivery of Phase 2 of the Council's key regeneration scheme at Ebury Bridge. A final decision on the delivery route is expected to be taken by the Council in quarter one of 2022/23.

Acquisitions

- 10.29. Included in the business plan is a budget for acquiring completed intermediate units and/or market homes for the purpose of letting at intermediate or market rent levels. In order to retain control of the affordable units on these sites the Council has decided that these units will be held by Westminster Builds rather than an external housing association.

Each scheme will be approved through the Council's existing governance processes. However, the Westminster Builds business plan currently includes planned acquisitions on the following sites: Farm Street (acquired and awaiting first tenants), Parsons North, West End Gate, Ashbridge St, Luxborough St, Pimlico and homes within the first phase of the Ebury Bridge regeneration and Lisson Grove programme in the Church St regeneration area. Current projections show the company will hold 71 homes for rent by the end of March 2022.

Jubilee Phase 2

- 10.30. Following completion of the legal documents on the Westminster Builds acquisition of 19 units on Jubilee phase 2 for £10.2m, the company entered into a further loan agreement with the Council in Q2 2020/21. The acquisition will be part-funded by £3.9m of affordable housing fund and a grant of £0.7m from the GLA. The acquisitions will be made by staged payments to the

developer, with payments totaling £7.530m being made as at Q3 2021/22. The units are expected to be completed in Q1 of 2022/23

- 10.31. The value of the properties from the Council is determined through a capitalised rent calculation based on the achievable intermediate rent, ensuring a market facing price acceptable to both the Council and WB.

HRA Business Plan

- 10.32. The Council is committed to delivering an ambitious HRA capital programme that, in addition to building new affordable homes, will regenerate existing estates and safeguard the condition of existing housing stock. The Development element of the overall programme aims to provide a supply of new homes that will enrich and promote healthy neighbourhoods and communities via mixed use developments, proactive place shaping and ensuring there is greater support for local services and amenities.
- 10.33. The HRA will play a significant role in the delivery of the wider Housing Programme and will work with the Council's General Fund and the wholly owned subsidiaries to ensure the aspiration of the housing plan is delivered. The planned capital spend for 2022/23 is £197m with a total of £2.215bn planned to be spent over the duration of the 30 year business plan. This represents an increase of £123m since the February 2021 HRA budget report.
- 10.34. This programme will be funded using various funding sources, including the use of the Affordable Housing Fund, Capital Receipts, and available grants. HRA borrowing will be used to cover the gap between available funding and planned expenditure. In October 2018 the HRA borrowing cap was removed, allowing greater flexibility for investment in building affordable housing. However, borrowing within the HRA still needs to be tightly managed and a prudent approach must be taken to ensure that there is sufficient cover within the HRA revenue budget to support planned borrowing. The business plan takes several steps to ensure that the HRA debt profile is sustainable, including a sufficient level of interest cover within the revenue budget (to provide financial resilience) and maintaining appropriate levels of HRA reserves (set at a minimum of 10% of turnover).
- 10.35. The business plan has been developed at a time of increasing cost volatility in the construction sector (due to inflation running at a ten-year high and evidence of a squeeze on the availability of both labour and materials). Risks are also present in relation to the residential market and the ability to generate projected capital receipts. The business plan attempts to mitigate these risks by including a programme-wide development contingency within the capital

programme and building in cost inflation in relation to the planned maintenance programme. It has also created a flexible revenue contribution to capital within the revenue budget that can be re-purposed to support further borrowing if there is any significant adverse movement on the key financial assumptions included within the business plan.

10.36. Key regeneration schemes being developed within the HRA include:

Church Street

10.37. In December 2017, the Cabinet approved the Church Street Masterplan as the Council's framework for informing the future regeneration of the Church Street area. The proposed developments of sites A, B & C form part of this wider Masterplan. Site A will be the first of the three sites to be redeveloped and a decision has been taken for this to be undertaken by Westminster Builds. A decision is yet to be taken on the delivery routes for sites B & C.

Ebury Bridge

10.38. The Ebury Bridge Estate is one of the key priority estates identified within the Council's Housing Renewal Strategy as needing significant improvement and investment. The regeneration plans for the site are split into two phases. In March 2019 a decision was taken by the Council to progress the delivery of Phase 1 through the HRA and this element of the scheme is now in contract. A decision is due to be taken during early 2022/23 as to the most appropriate delivery route for Phase 2.

Carlton Dene

10.39. The development project at Carlton Dene comprises the redevelopment of an existing residential care home and one block of nine apartments to provide new housing for older people, specialist housing for people with learning disabilities, affordable housing and private for sale units. The project will deliver 87 new affordable homes, 65 of which will be extra care housing.

10.40. Other schemes include:

- The demolition and redevelopment of the Balmoral Public House, Darwin House and associated garages will provide 52 new affordable homes in two phases including 34 community supportive housing units that will enable the decant of Darwin House residents and 18 intermediate units.
- Options are being explored for the redevelopment of the vacated Brunel Contact Centre to deliver circa 60 new homes.

- As part of the Paddington Green scheme, the Council is exploring options to acquire 45 affordable homes from the second phase of the West End Gate development being delivered by Berkeley Homes.

11. Capital Funding

11.1. The Council is required to have a funded capital programme that is affordable, i.e., all capital expenditure should have a source of funding and if that funding source is borrowing, the cost of the borrowing should be built into a balanced revenue budget.

11.2. The key sources of funding for the Council are:

- Grants
- Contributions
- S106/CIL
- Capital Receipts
- Direct Revenue Funding
- Borrowing

Grants

11.3. These are predominantly government grants and are usually provided to the Council for the specific use of funding capital expenditure for certain schemes and programmes. The majority of grants the Council receives for capital projects are via the Department for Education (DfE), which are provided to ensure the Council is meeting its statutory duty of providing school places and ensuring school building are in a good condition. Other grants the council receives include TfL grant funding for infrastructure improvements across the City, Disabled Facilities Grant (DFG) and Community Capacity Grants in Adult Social Care.

Capital Contributions

11.4. In comparison to grants, capital contributions are specific contributions received for projects and are normally provided by the government, external agencies or private companies, who have a specific output or outcome they would like achieved through the capital works the Council is providing. Quite often, the scope of these projects is dependent on this external funding, without which the Council may decide to reduce the objectives and scope of a scheme. Examples of capital contributions include several infrastructure

projects such as Ceremonial Streetscapes which have specific outcomes that organisations would like to achieve.

Community Infrastructure Levy (CIL)

11.5. Community Infrastructure Levy (CIL) is a planning charge introduced by the Planning Act 2008. The Council started charging CIL in May 2016. Developers must pay a levy linked to planning applications - this is based on a Council approved policy and charging schedule. Under regulation, CIL is split in the following way:

- 15% is allocated to Neighbourhood CIL – divided among the 21 Neighbourhood Areas to address the demands of development within their area
- 5% used to administer CIL at Westminster City Council
- 80% of Strategic CIL (or “City Portion”) is spent by the Council on delivering the infrastructure needed to support growth

11.6. The majority of CIL funding is used to fund infrastructure projects but an element is also used towards education, community services and open spaces.

11.7. The income from this levy is held corporately and the Council decides how to allocate Strategic CIL as part of the capital budget process and in agreement with the CIL Cabinet Committee. Future projects that assume CIL funding will only commence once allocation of that funding has been recommended by the CIL Cabinet Committee and approved by Cabinet and Full Council. The Capital Programme assumes Strategic CIL funds projects within the proposed programme; however, individual approvals will come forward for those before those projects commence.

11.8. The 2022/23 projects recommended to be funded from Strategic CIL are:

Project	Relationship to development and/or growth
Princes Street Public Realm	<p>Necessary infrastructure to manage the expected increase of pedestrians arriving into the West End via Crossrail (estimated 16,000 pedestrians per hour will use the eastern entrance to Crossrail on the adjacent Hanover Square, exiting the station facing Princes Street and the northern side of Hanover Square).</p> <p>The project is also the last piece of a broader strategic effort to ensure our streets are safe and to improve local areas for</p>

	our communities, with other public realm schemes in the immediate vicinity including at Bond Street, Hanover Square, Harewood Place, Oxford Street and Regent Street.
Sackville and Vigo Streets Public Realm	Necessary infrastructure to manage the expected increase of pedestrians arriving into the West End via Crossrail (estimated 16,000 pedestrians per hour will use the eastern entrance to Crossrail which eventually leads to Sackville and Vigo Streets)
Queensway	Directly related to development – these works were originally funded as part of s106 agreement, but those funds were diverted to affordable housing

11.9. The availability of CIL receipts to fund major schemes is subject to the on-going generation of CIL funds from developers for the duration of the capital programme. Major projects will only proceed subject to business cases being approved according to Capital Review Group guidelines. Part of this scrutiny considers the availability of the funding required to make the scheme viable. In the event that this funding is considered to be at risk (due to low recovery of CIL, for example) alternatives would need to be sought before approval to proceed is granted. The Capital Programme assumes AHF funds projects within the proposed programme; however, individual approvals will come forward for those before those projects commence.

Section 106 / Section 278 and Affordable Housing Fund Receipts

11.10. S106 differs from CIL, as it is essentially a contract between a developer and the Council and, similarly to capital contributions, has to be used for specific projects and outcomes rather than a more general objective.

11.11. S278 receipts are linked to highways works and are specific contributions from a developer. This is related to highways works the Council carries out on behalf of the developer in line with planning approvals.

11.12. Affordable Housing Fund (AHF) receipts are income the Council receives from developers in lieu of affordable housing being built in line with the Council's policies on a prospective development. These receipts must be used toward building new or replacement affordable homes.

11.13. The availability of AHF receipts to fund major schemes is subject to the on-going generation of AHF funds from developers for the duration of the capital programme. Major projects will only proceed subject to business cases being

approved according to Capital Review Group guidelines. Part of this scrutiny considers the availability of the funding required to make the scheme viable. In the event that this funding is considered to be at risk (due to low recovery of AHF, for example) alternatives would need to be sought before approval to proceed is granted.

Capital Receipts

- 11.14. Capital receipts are generated from the sale of non-current assets (i.e., assets such as land and buildings), and apart from special circumstances, can only be used to fund the capital programme. The Council holds all capital receipts corporately, which ensures they can be used to fund the overall programme; therefore, individual services are not reliant on their ability to generate capital receipts.
- 11.15. A considerable amount of funding in the capital programme is due from capital receipts. These are expected to be generated from the Council's development schemes. However, the value of the receipts could be subject to market volatility and macro-economic circumstances could impact on the level of receipts the Council receives so a prudent approach to these forecasts is taken.
- 11.16. Capital receipts have the potential of being the most volatile of capital funding sources and are the most uncertain of all funding sources. To mitigate against this uncertainty, the Council maintains a close brief on the state of the property market, reporting this to senior officers and members (via CRG) and only includes a prudent level of income as part of its capital budget, but more importantly as schemes progress ensure that decisions on release of sales are cognisant of the market conditions.

Direct Revenue Financing

- 11.17. The Council can, if it chooses to, fund capital expenditure via its revenue budget. This can be through in year underspends or via general or earmarked revenue reserves. Any funding of the capital programme via revenue resources would have to be considered in light of the Council's overall revenue budget and the Medium Term Financial Plan.

Borrowing

- 11.18. Borrowing to finance capital expenditure is normal practice in both the private and public sector. In Local Government the prudential borrowing regime has operated since 2004/05 where Councils must take responsibility to ensure that

it is both affordable and sustainable for their revenue budget and for the council taxpayer.

- 11.19. Borrowing can take the form of internal or external borrowing. Internal borrowing is a temporary position where the Council uses its cash balances instead of externally borrowing at that point in time. If not used for internal borrowing, these cash balances would be invested on a medium to long term basis providing the Council with a return on investment at prevalent market interest rates. As such there is an opportunity cost associated with internal borrowing that is built into the revenue implications of the capital programme. The Council's main objective when borrowing externally is to achieve an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required.
- 11.20. External borrowing occurs when the Council borrows money from the open market, via financial institutions and investors or the government, via the Public Works Loan Board (PWLB). On 5 November 2020, the Public Works Loan Board (PWLB) reversed its decision to increase the cost of borrowing for local authorities for general fund purposes by 1%, bringing the rates offered in line with those for housing revenue account purposes. All new loans are therefore now subject to the relevant gilt yields +0.8% (certainty rate).
- 11.21. In November 2020 the PWLB released further guidance confirming local authorities must not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with PWLB loans. Under the prudential code, local authorities cannot borrow from the PWLB or any other lender for speculative purposes and must not use internal borrowing to temporarily support investments purely for yield.
- 11.22. Although the capital programme may identify a need to borrow to fund capital expenditure, the timing and type of borrowing (internal/external) is dependent on cashflow modelling in line with the Council's Treasury Management Strategy, which is updated each year and is a concurrent report on this agenda.
- 11.23. The Council's total borrowing requirement based on capital expenditure incurred historically but yet to be financed is represented by the Capital Financing Requirement (CFR). This is published in the statement of accounts, and as of 31 March 2021 was £891.800m.
- 11.24. During 2019/20, the Council arranged forward borrowing loans totaling £400m. These loans have enabled the Council to agree fixed competitive rates in advance of need which eliminates the "cost of carry", that is the difference

between loan interest cost and the rate of return on cash investments. The table below summarises the counterparties, amount to be drawn down and maturity dates for each loan facility.

Table 2: Forward Borrowing Summary

Counterparty	Amount (£m)	Start Date	Maturity Date	Rate (%)	Profile
Phoenix Group	37.5	15 March 2022	15 March 2062	2.706	Annuity
Barings LLC	150.0	15 August 2022	15 August 2052	1.970	Maturity
Phoenix Group	12.5	15 March 2023	15 March 2063	2.751	Annuity
Rothsay Life Plc	200.0	08 May 2023	08 May 2063	2.887	Equal Instalment of Principal
Weighted average interest rate	400.0			2.579	

11.25. All capital financing costs, i.e., interest costs and minimum revenue provision must be treated as a revenue cost and built into the Council's budget plans. In essence, the more the Council borrows, the greater the call on the revenue budget which then requires further service savings to be identified to fund this in the longer term. It is important that borrowing is set at a level that it is both affordable and sustainable in revenue budget terms.

12. Capital Programme Funding: 2021/22 to 2035/36

12.1. The table below summarises the Council's funding of the proposed capital programme as outlined in this report:

Table 3: Funding of the Capital Programme

	Forecast 2021/22 £000	Five Year Plan					Future Years to 2035/36 £000	Total £000
		2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000		
External Funding	84,431	46,939	38,686	21,844	10,254	11,446	27,950	241,550
Capital Receipts	7,381	83,533	47,441	8,563	79,713	122,211	669,276	1,018,118
Borrowing Requirement	179,382	171,423	220,948	400,505	242,627	51,569	224,627	1,491,081
Total	271,194	301,895	307,075	430,912	332,594	185,226	921,853	2,750,749

12.2. In total £1.260bn (44%) of the programme is to be funded via external or internal sources of funding, with the remainder via borrowing (both internal and external).

12.3. The table below outlines the main streams of external funding

Table 4: Analysis of Proposed External Funding

Financed by	Forecast	Five Year Plan					Future Years	Total £000
	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	to 2035/36 £000	
Affordable Housing Fund Contributions	15,670	10,962	6,590	-	-	-	18,000	51,222
Section 278 Contributions	10,496	10,473	12,050	6,000	6,000	6,000	-	51,019
Community Infrastructure Levy (CIL)	7,310	4,166	907	10,150	-	-	9,950	32,483
External Contributions	9,403	3,120	8,300	600	-	-	-	21,423
Other Grants and Contribution	4,361	7,628	1,041	515	375	2,567	-	16,487
Section 106 Contributions	5,733	4,841	2,450	1,000	-	-	-	14,024
Carbon Management Programme Grant	12,999	-	-	-	-	-	-	12,999
DCLG Disabled Facilities Grant	1,856	1,729	1,729	1,729	1,729	1,729	-	10,501
DFE Basic Needs Grant	5,615	1,300	3,000	-	-	-	-	9,915
DFE Grant - St Marylebone Bridge Special	7,269	-	-	-	-	-	-	7,269
Transport for London (TfL) Grant	450	250	1,050	650	2,150	1,150	-	5,700
Sport England Grant	-	-	750	1,000	-	-	-	1,750
GLA Good Growth Fund	1,142	599	-	-	-	-	-	1,741
DoH Community Capacity Grant	637	513	219	-	-	-	-	1,369
London Business Rates Pool Strategic	900	450	-	-	-	-	-	1,350
European Regional Development Fund	190	508	200	200	-	-	-	1,098
DFE Schools Condition Allocation	400	400	400	-	-	-	-	1,200
Total	84,431	46,939	38,686	21,844	10,254	11,446	27,950	241,550
Capital Receipts	7,381	83,533	47,441	8,563	79,713	122,211	669,276	1,018,118
Borrowing Requirement	179,382	171,423	220,948	400,505	242,627	51,569	224,627	1,491,081
Total	271,194	301,895	307,075	430,912	332,594	185,226	921,853	2,750,749

12.4. The main source of external funding is via contributions towards Highways projects, these include Section 278 and Section 106 Contributions and Community Infrastructure Levy. Another significant source of funding is the Affordable Housing Fund (AHF). Within the General Fund programme this is primarily related to AHF contributions to registered providers.

13. Revenue Implications of the Programme

Table 5: Summary of the Revenue Implications of the Capital Programme

	Forecast	Five Year Plan					Future Years	Total £000
	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	to 2035/36 £000	
Expenditure	271,194	301,895	307,075	430,912	332,594	185,226	921,853	2,750,749
External Funding	(84,431)	(46,939)	(38,686)	(21,844)	(10,254)	(11,446)	(27,950)	(241,550)
Capital Receipts	(7,381)	(83,533)	(47,441)	(8,563)	(79,713)	(122,211)	(669,276)	(1,018,118)
Borrowing Requirement	179,382	171,423	220,948	400,505	242,627	51,569	224,627	1,491,081
Revenue Impacts:								
Capital Financing Cost	19,090	16,937	24,672	33,306	49,564	62,000	558,667	764,237
Financed By:								
Commercial Income	(1,419)	(4,844)	(1,489)	(1,563)	(8,270)	(7,368)	(119,992)	(144,945)
Net Revenue Position	17,671	12,093	23,183	31,743	41,294	54,632	438,675	619,292
Sinking Fund Adjusted Balance	(2,871)	5,607	(2,483)	(8,043)	(14,264)	(24,189)	3,712	(42,531)
MTP Budget Assumptions	14,800	17,700	20,700	23,700	27,030	30,443	442,387	576,760

13.1. The council aims to maximise its balance sheet assets and as such can utilise cash balances derived from working capital (such items as the appeals provision, reserves, affordable housing fund, etc.) rather than borrowing externally to finance the net cost of the capital programme. Over the 15-year capital programme it is currently estimated that the council will incur net financial costs, through its revenue budget of £619.292m. This includes £764.237m of financing costs (including MRP), offset by £144.945m of

commercial income. £42.531m will be funded from the capital financing reserve.

- 13.2. The revenue costs of the capital programme are not uniform across the 15 years of the capital programme and are subject to significant fluctuations in line with the profiling of capital expenditure and funding (particularly capital receipts as units are sold after completion). To manage these fluctuations, the Council is operating a sinking fund which ensures the revenue budget increases are consistent with surplus balances at the start of the programme being transferred to a capital financing reserve, which will then be drawn down in later years. Based on current estimates and assumptions at the end of 2035/36 the capital financing budget will be approximately £65m, this represents an increase of about £50m compared to the current base budgets for capital financing. This represents around 7.5% of the current gross expenditure in the General Fund. This is an annual budget that will be put aside as part of the Council's revenue budget and the current plans reflect this.
- 13.3. As noted earlier in the report, CRG will have a pivotal role in monitoring the cost of funding the programme, ensuring project business cases continue to be viable and the programme is affordable. Where they assess this not to be the case, action will be taken to bring the programme back to an affordable position.

Minimum Revenue Provision (MRP)

- 13.4. MRP is applied where the council must set aside a revenue allocation for provision of debt repayments (borrowing in the capital programme). MRP replaces other capital charges (e.g., depreciation) in the statement of accounts and has an impact on the council's bottom line revenue budget. MRP will increase and decrease throughout the programme and is sensitive to both expenditure and funding changes. The council will continue to balance the use of capital receipts, internal borrowing and external borrowing to ensure the most efficient use of resources, including the need to fund MRP.
- 13.5. The Council has an ongoing capital programme and will continue to invest in capital projects beyond 2035/36 and will therefore need to ensure that funds are set aside for the future cost of borrowing.

Revenue Reserves

- 13.6. In addition to the statutory minimum revenue provision outlined above, the Council also retains discretionary flexibility with earmarked reserves to fund aspects of the programme that may be revenue in nature or projects that are

written off. Each year, capital expenditure is reviewed to ensure that any revenue elements of expenditure is charged to reserves in line with accounting regulations. The Council maintains an earmarked reserve for this purpose. There is currently £42m in this reserve to fund the programme.

- 13.7. Section 25 of the Local Government Act 2003 requires the Council's Section 151 officer to report on the adequacy (or otherwise) of reserves and the robustness of estimates supporting the budget. It is the view of the Chief Financial Officer that the total level of reserves that the Council maintains is considered robust and can support the delivery of the capital programme.

14. Risk Management

- 14.1. Major capital projects require careful management to mitigate the potential risks that can arise. The effective monitoring, management and mitigation of these risks is a key part of managing the capital strategy.

General Risks

- 14.2. General risks are those that are faced because of the nature of the major projects being undertaken. Most of these risks are outside of the Council's control, but mitigations have been developed as part of the business planning and governance process. These risks are set out below along with key mitigations:

Interest Rate Risk

- 14.3. The Council is planning to externally borrow £515.169m as part of the Capital Strategy over the next five years. Interest rates are variable and a rise could increase the cost of servicing debt to a level that is not affordable. To mitigate this, the Council has used interest rate forecasts that include a prudent provision against interest rate rises.
- 14.4. In the event that interest rates rose beyond this forecast plus contingency, the revenue interest cost to the Council would increase for all borrowing not yet entered into (generally borrowing is done on fixed rate terms). The forward borrowing arrangement the Council has agreed has mitigated a large extent of this risk, however, a rise of 1% above current interest rate assumptions would cost an extra £5.152m per annum on the full £515.169m borrowed by the end of 2026/27. The extra cost of a 1% rise in interest rates would be £54.415m by 2035/36 over the 15 years if the full projected external borrowing of £515.169m were to be realised.
- 14.5. The Council is currently maintaining an under-borrowed position. This means that the current capital borrowing need (the Capital Financing Requirement) is

not fully funded with external loan debt, as current cash supporting the Council's reserves, balances and cash flow has been used as an interim funding measure. This strategy has been prudent as investment returns have remained low and counterparty risk is minimised. It has also saved a considerable amount of external interest payable, known as the 'cost of carry'.

- 14.6. The Council's treasury management strategy permits borrowing from various sources, but it has not been previously anticipated that any alternatives to PWLB would need to be utilised, given the current low cost of PWLB funding and speed/ease of transaction. The external borrowing position needs to be kept under review to avoid incurring higher borrowing costs (through increased interest rates) in future years when the Council may not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt.

Inflation Risk

- 14.7. Construction inflation over and above that budgeted by the council's professionals and advisors, and built into project budgets, could impact on the affordability of the capital programme. A 1% rise in the cost of the programme would increase the cost of the programme by approximately £27.5m. This is mitigated through the provision of contingencies, updating estimates regularly as they change and monitoring the impact through governance processes. This is also mitigated post the signing of contracts with construction companies and developers through fixed price contracts.
- 14.8. Construction inflation over and above that budgeted by the council's professionals and advisors, and built into project budgets, could impact on the affordability of the capital programme. A 1% rise in the cost of the programme would increase the cost of the programme by approximately £27.5m. This is mitigated through the provision of contingencies, updating estimates regularly as they change and monitoring the impact through governance processes. This is also mitigated post the signing of contracts with construction companies and developers through fixed price contracts.

Legislative Risks

- 14.9. Capital schemes need to comply with the latest law and regulations, changes in which can impact construction costs and may be retrospective in their nature. This risk is mitigated by awareness of pipeline legislative changes and provision of contingencies.

Market Health/Commercial Risks

- 14.10. Market health / Commercial Values Risk – the Council’s capital programme relies on commercial activity as a key supporting strategy. This involves generation of income from property letting, sales receipts and other revenue/capital financial flows such as land deals with developers. In some cases, the Council commits to large projects, based on assumptions about future asset values. Should market movements mean that these assumptions are inaccurate, then the Council may suffer financially. To mitigate this risk, the Council relies on expert advice on future asset values in making its decisions.
- 14.11. Supplier Financial Stability – construction companies and developers contracting with the Council that experience financial instability pose a significant risk. They may not be able to raise funding to finance operations, and their potential insolvency could lead to a costly process of changing suppliers without any guarantee of remaining within the overall budget. The Council could suffer direct financial loss, and any defects or other issues may not be resolvable as anticipated. To mitigate this risk, the Council carefully considers the financial robustness of any contractor and requests appropriate financial standing assurance and support wherever possible.

Transfer Risk

- 14.12. When the Council plans and delivers projects, it is important to consider the risks associated with the project and whether the Council (or its subsidiaries such as Westminster Housing Investment Ltd) is the best placed to take on that risk. A key consideration for major capital schemes is whether these will be developer led or whether the Council will self-develop. For a developer led scheme the developer will take on a significant proportion of the risks associated with the project. However, the developer will price this risk in, so it will come at a cost. Considerations can include whether there is resource capacity and expertise to take on specific risks in the context of the overall capital programme. The housing subsidiaries are newly incorporated and there may be an initial set-up risk as the company gains experience and embeds its delivery plan.

Project Risks

- 14.13. Risks that relate to the delivery of capital projects, which in many cases can be controlled, influenced, or directly mitigated in ways other than making contingencies available. These risks would mostly relate to unforeseen project delays and cost increases which could arise from a range of

circumstances. The effective management of these risks is mostly linked to the following strategies:

- Projects are required to maintain a risk register, to ensure effective monitoring.
- Highlight reporting - development projects, as an example, create monthly highlight reports to ensure stakeholders are aware of progress and risks of projects on an on-going basis.
- Appointment of professional teams - the Development team has recruited and retained the services of experts to provide robust planning and review to advise on financial feasibility and to ensure timely delivery of projects. Experts also cover key surveying and financial planning roles to give assurance on quality of work and assumptions.
- Risk of Revenue Write Off – the Council commits to feasibility studies on many of its significant capital schemes at the point where spend is revenue in nature or when capital spend may be written off, should the scheme in question not progress. This is managed through careful consideration and approval of all expenditure potentially at risk of revenue write-off. There is a further risk that any projects funded from flexible use of capital receipts (FCR) may not yield the required ongoing revenue savings and therefore may need to be written off to revenue.

15. Financial Implications

15.1. Financial implications are set out in the main body of this report

16. Legal Implications

16.1. The Council has a duty under section 3(1) of the Local Government Act 2003 to determine and keep under review how much money it can afford to borrow. Section 3(5) of the Local Government Act 2003 provides that the Secretary of State may by regulations make provision about the performance of that duty. Regulations made by the Secretary of State require the Council to have regard to the Prudential Code for Capital Finance in Local Authorities published by CIPFA regarding the affordability of the Capital Programme.

16.2. The legal implications for each individual scheme within the capital programme will be considered when approval is sought for that particular scheme. Each scheme within the capital programme will be approved in accordance with the council's constitution.

17. Carbon Implications

- 17.1. In order for the Council to better understand the Carbon impact of the capital strategy, a new part of the bidding process was introduced to capture the available carbon impact information.
- 17.2. Officers are currently working with a partner to develop a toolkit to model carbon impact on a consistent basis across all capital projects. With this toolkit in development, in the interim a qualitative impact assessment was required to accompany the bids.
- 17.3. The key assessment criterion was to determine whether a project's estimated emissions impact was expected to be positive, neutral or negative. This impact was then assessed as low (under 100 tonnes), medium (100 to 1,500 tonnes) or high (over 1500 tonnes).
- 17.4. The headline data shows that of the 155 impact assessments reviewed, 64 would positively impact the Council's carbon footprint, 58 were broadly neutral and 32 projects would negatively impact the position.
- 17.5. Although there are more positive schemes than negative ones, the data shows the negative schemes are likely to have a high impact whilst the positive schemes low impact. This data may impact the viability of some projects that are not underway or essential for health and safety or infrastructure purposes.
- 17.6. It is important to note this is an initial assessment, with many of the projects not yet underway and the detail will only be available once the carbon toolkit has been finalized. There may also be opportunity to improve this position in further iterations of the capital programme.
- 17.7. The Council is continuing to reduce its asset base and retrofit properties with BEIS granting £13m last year for works to be done. Furthermore, schemes such as the adoption of electric vehicles will reduce carbon impact earlier.

18. Staffing Implications

- 18.1. None specifically in relation to this report.

19. Consultation

- 19.1. Consultation and engagement will be carried out on individual schemes within the capital programme where it is considered that there will be an impact on residents or service users that warrants consultation.

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

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20. Background Papers:

20.1. Capital programme working papers

20.2. Capital Programme Submission Requests for individual projects

21. Appendices

Appendix A – Capital Programme by Directorate